ISDA Safe, Efficient Markets

May 31, 2017

Submitted via email to:
secretariat@anna-dsb.com

**Re: ANNA-DSB Fee Model Consultation Paper 2**

The International Swaps and Derivatives Association, Inc. ("ISDA")[1] appreciates the opportunity to provide The Association of National Numbering Agencies ("ANNA") and the Derivatives Service Bureau ("DSB") with comments in response to the Consultation Paper referenced above (the "Consultation Paper"). We are strong proponents of global data harmonization, working in tandem with our members and other buy- and sell-side market participants and market infrastructure providers to promote the important role of global standards in improving data quality and increasing the efficiency and value of regulatory requirements while simultaneously improving business processes.

## Preface

We see that the DSB has taken on board part of our comments made in the first fee consultation regarding the split between start- up cost and ongoing cost, however more detail is still needed and several of the questions raised in the first consultation remain unanswered. We are surprised to see that the running ongoing cost is higher than the year one starting cost. In addition there is no trend to reduce the running cost after a number of years. We would expect the operating cost to come down over time in particular given the previous indications that the cost is insensitive to the number of ISINs. Can the DSB provide more detail on the different cost components and how these are expected to evolve over time, including whether applications beyond MIFID 2 are considered for the current cost estimates?

Start-up Costs:

The budget includes Euro 600,000 contingency to cover extraordinary costs. Can the DSB provide more detail on the type of costs they anticipate? In addition, the overall figure includes a 20% margin for financial sustainability. Can the DSB provide more detail on the intended use of this margin? Is this

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org

intended as a reserve or capital fund? If the fund is not used how will it be returned? We note that the ongoing operational budget also includes a 20% financial sustainability level, which, if not used or returned after 4 years of operation (+ start up), leads to a financial sustainability level fund of 100% of the operating budget.

Operational Costs

The contingency budget for the operational cost is Euro 750,000 per annum during the first few years. Is "the first few years" the same period as the proposed amortization time for the start-up costs? If the contingency budget is not used in year one will it be returned or is there a particular level of a contingency budget that the DSB attempts to achieve?

An assumption is made that there will be first movers and users that join in subsequent years. As far as the application for MIFID II is concerned, we believe that assumption to be wrong and expect almost all users to be there from the start. Subsequent users joining will largely be dependent on a broadening of the ISIN scope beyond the MIFID II requirements.

Finally, we strongly reemphasize the need for open and transparent governance. We continue to be deeply concerned about the lack of representation on the DSB board of entities that are expected to pay for the cost recovery, the lack of visibility of the cost recovery criteria, and the absence of check and balances around potential future cost increases.

***Q1: Do you agree that 4 years is an appropriate time frame to amortize the start-up costs? Please provide any relevant evidence to support your answer.***

We expect the amortization period for the start-up cost to be in line with accounting and other general accepted market best practices. We encourage the DSB to highlight the principles that led to the current start-up cost amortization proposal.

***Q2: Do you agree with the proposal to create a contingency fund of €750K to cover unplanned costs during the initial few years of operation? If not, please suggest alternative approaches to financial risk management in a cost-recovery construct.***

We raised in the preface a number of questions related to the interplay between the contingency fund, the financial sustainability margin and how these will evolve over time. Without more clarity on the usage of the fund and margin we abstain from commenting on the actual size but we do emphasize the need to provide clarity around the governance of these funds: what is their intended and allowed usage, how will the funds be returned if not used and how will these funds be managed over time e.g. maximum size they can reach.

On the usage of the funds, we want to point out that if additional services are requested by the industry, the approval process for these services should include a process to secure funding for the additional development. Funding for approved additional services should not happen through the contingency fund or through the sustainability margin fund.

***Q3: Do you agree with the proposal to simplify the fee model by eliminating the differentiation between users requiring access to a single asset class vs multiple asset classes? Please provide details and any relevant evidence to support your answer.***

Yes, we are in favor of eliminating the differentiation between users requiring access to a single asset class versus multiple asset classes. As we explained in our proposal in the first fee consultation, this distinction would add complexity without a clear benefit.

***Q4: Do you agree with the proposal to provide the full database archive to Registered Users (at no charge), in addition to the paid user categories? Please provide details and any relevant evidence to support your answer.***

We agree in principle with the proposal to provide the full database archive to Registered Users for free. We always supported, and it is one of the SG 2 agreed principles, that both the ISIN itself and the underlying metadata should be available as a public good at no cost. At the same time the DSB needs to ensure that the cost of the ISINs will be distributed as wide and equitable as possible and hence should consider the potential impact of free data on its proposed fee framework.

***Q5: Do you agree with using 3 as the ratio of fees between Power Users and Standard Users? If not, please provide details and any relevant evidence to support your suggested ratio.***

Can the DSB explain the reasoning behind the ratio chosen? The DSB should keep the options available to recalibrate and change the ratio at a later point in time when data is available on the size of each the categories and when more information will be available on the actual usage of the ISIN data by the different user categories.

***Q6: Are there any specific challenges you will face meeting the contract execution and payment deadlines stipulated above? Please provide details.***

We suggest for the DSB to estimate the number of power users and standard users based on the UAT usage by late summer (e.g. Mid-August) and use that figure to estimate the fees for each category. If the UAT data is not sufficiently clear, the DSB can further ask for the intent of parties in UAT to sign up for the service. Providing an exact fee amount or a fee amount within set boundaries will facilitate the finalization of contracts. The actual invoice amount can then be adjusted within the boundaries set, before invoicing.

We note that a 2 months period during the summer is very tight to come to a fully agreed contract. It will be important for the DSB as part of the contract to provide clarity on the fall deadlines and in particular the date when the production environment will be fully operational.

***Q7: Do you agree with the principle of using excess revenue to reduce the subsequent year's fees? If not, please explain your reasoning and provide industry examples to support your view.***

Yes, but calculations should be fine-tuned to reduce excess as much as possible and minimize rebates. Excess amounts should be returned or offset against the next year's fees on a firm by firm basis. They cannot be used for new projects.